

**"You really know how to make
a guy happy."**

This is an authentic passenger statement.



Lufthansa

Financial Times Monday February 11 1991

فإنه أصل الأصل

Sale & Prosper International		0534 73933		Working Investment Managers (Jersey) Ltd		0534 7171	
PO Box 75, Hilder, Jersey				Unit 25, St Helier, Jersey			
Investment Funds				Investment Funds			
1st Fund	£11.54	12.28	4.50	1st Fund	£11.54	49.02	10.34
2nd Fund	£11.54	12.28	4.50	2nd Fund	£11.54	49.02	10.34
3rd Fund	£11.54	12.28	4.50	3rd Fund	£11.54	49.02	10.34
4th Fund	£11.54	12.28	4.50	4th Fund	£11.54	49.02	10.34
5th Fund	£11.54	12.28	4.50	5th Fund	£11.54	49.02	10.34
6th Fund	£11.54	12.28	4.50	6th Fund	£11.54	49.02	10.34
7th Fund	£11.54	12.28	4.50	7th Fund	£11.54	49.02	10.34
8th Fund	£11.54	12.28	4.50	8th Fund	£11.54	49.02	10.34
9th Fund	£11.54	12.28	4.50	9th Fund	£11.54	49.02	10.34
10th Fund	£11.54	12.28	4.50	10th Fund	£11.54	49.02	10.34
11th Fund	£11.54	12.28	4.50	11th Fund	£11.54	49.02	10.34
12th Fund	£11.54	12.28	4.50	12th Fund	£11.54	49.02	10.34
13th Fund	£11.54	12.28	4.50	13th Fund	£11.54	49.02	10.34
14th Fund	£11.54	12.28	4.50	14th Fund	£11.54	49.02	10.34
15th Fund	£11.54	12.28	4.50	15th Fund	£11.54	49.02	10.34
16th Fund	£11.54	12.28	4.50	16th Fund	£11.54	49.02	10.34
17th Fund	£11.54	12.28	4.50	17th Fund	£11.54	49.02	10.34
18th Fund	£11.54	12.28	4.50	18th Fund	£11.54	49.02	10.34
19th Fund	£11.54	12.28	4.50	19th Fund	£11.54	49.02	10.34
20th Fund	£11.54	12.28	4.50	20th Fund	£11.54	49.02	10.34
21st Fund	£11.54	12.28	4.50	21st Fund	£11.54	49.02	10.34
22nd Fund	£11.54	12.28	4.50	22nd Fund	£11.54	49.02	10.34
23rd Fund	£11.54	12.28	4.50	23rd Fund	£11.54	49.02	10.34
24th Fund	£11.54	12.28	4.50	24th Fund	£11.54	49.02	10.34
25th Fund	£11.54	12.28	4.50	25th Fund	£11.54	49.02	10.34
26th Fund	£11.54	12.28	4.50	26th Fund	£11.54	49.02	10.34
27th Fund	£11.54	12.28	4.50	27th Fund	£11.54	49.02	10.34
28th Fund	£11.54	12.28	4.50	28th Fund	£11.54	49.02	10.34
29th Fund	£11.54	12.28	4.50	29th Fund	£11.54	49.02	10.34
30th Fund	£11.54	12.28	4.50	30th Fund	£11.54	49.02	10.34
31st Fund	£11.54	12.28	4.50	31st Fund	£11.54	49.02	10.34
32nd Fund	£11.54	12.28	4.50	32nd Fund	£11.54	49.02	10.34
33rd Fund	£11.54	12.28	4.50	33rd Fund	£11.54	49.02	10.34
34th Fund	£11.54	12.28	4.50	34th Fund	£11.54	49.02	10.34
35th Fund	£11.54	12.28	4.50	35th Fund	£11.54	49.02	10.34
36th Fund	£11.54	12.28	4.50	36th Fund	£11.54	49.02	10.34
37th Fund	£11.54	12.28	4.50	37th Fund	£11.54	49.02	10.34
38th Fund	£11.54	12.28	4.50	38th Fund	£11.54	49.02	10.34
39th Fund	£11.54	12.28	4.50	39th Fund	£11.54	49.02	10.34
40th Fund	£11.54	12.28	4.50	40th Fund	£11.54	49.02	10.34
41st Fund	£11.54	12.28	4.50	41st Fund	£11.54	49.02	10.34
42nd Fund	£11.54	12.28	4.50				

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INSURANCE, OVERSEAS

BNP Paribas (Jersey) Ltd		0594 76031	The English Trust Group		0624 20770
PO Box 1528, St Helier, Jersey			PO Box 282, Douglas, Isle of Man		
US Dollar	\$112.34		US Dollar	\$112.75	
UK Pound	100.00	+0.04	UK Pound	100.00	
Swiss Franc	112.00		Swiss Franc	112.00	
French Franc	112.00		French Franc	112.00	
German Mark	112.00		German Mark	112.00	
Japanese Yen	112.00		Japanese Yen	112.00	
Italian Lira	112.00		Italian Lira	112.00	
Spanish Peseta	112.00		Spanish Peseta	112.00	
Portuguese Escudo	112.00		Portuguese Escudo	112.00	
Belgian Franc	112.00		Belgian Franc	112.00	
Dutch Guilder	112.00		Dutch Guilder	112.00	
Austrian Schilling	112.00		Austrian Schilling	112.00	
Swedish Krona	112.00		Swedish Krona	112.00	
Norwegian Krone	112.00		Norwegian Krone	112.00	
Denmark Krone	112.00		Denmark Krone	112.00	
Finland Markka	112.00		Finland Markka	112.00	
Polish Zloty	112.00		Polish Zloty	112.00	
Czech Koruna	112.00		Czech Koruna	112.00	
Slovak Koruna	112.00		Slovak Koruna	112.00	
Hungarian Forint	112.00		Hungarian Forint	112.00	
Romanian Leu	112.00		Romanian Leu	112.00	
Bulgarian Lev	112.00		Bulgarian Lev	112.00	
Greek Drachma	112.00		Greek Drachma	112.00	
Turkish Lira	112.00		Turkish Lira	112.00	
Israeli Sheqel	112.00		Israeli Sheqel	112.00	
Indian Rupee	112.00		Indian Rupee	112.00	
Pakistani Rupee	112.00		Pakistani Rupee	112.00	
Sri Lankan Rupee	112.00		Sri Lankan Rupee	112.00	
Thai Baht	112.00		Thai Baht	112.00	
Singapore Dollar	112.00		Singapore Dollar	112.00	
Malaysian Ringgit	112.00		Malaysian Ringgit	112.00	
Indonesian Rupiah	112.00		Indonesian Rupiah	112.00	
Philippine Peso	112.00		Philippine Peso	112.00	
Vietnamese Dong	112.00		Vietnamese Dong	112.00	
Laos Kip	112.00		Laos Kip	112.00	
Cambodian Riel	112.00		Cambodian Riel	112.00	
Myanmar Kyat	112.00		Myanmar Kyat	112.00	
Burmese Kyat	112.00		Burmese Kyat	112.00	
Nepalese Rupee	112.00		Nepalese Rupee	112.00	
Bhutan Ngultrum	112.00		Bhutan Ngultrum	112.00	
Maldivian Rufiyaa	112.00		Maldivian Rufiyaa	112.00	
Sri Lankan Rupee	112.00		Sri Lankan Rupee	112.00	
Indian Rupee	112.00		Indian Rupee	112.00	
Pakistani Rupee	112.00		Pakistani Rupee	112.00	
Sri Lankan Rupee	112.00		Sri Lankan Rupee	112.00	
Thai Baht	112.00		Thai Baht	112.00	
Singapore Dollar	112.00		Singapore Dollar	112.00	
Malaysian Ringgit	112.00		Malaysian Ringgit	112.00	
Indonesian Rupiah	112.00		Indonesian Rupiah	112.00	
Philippine Peso	112.00		Philippine Peso	112.00	
Vietnamese Dong	112.00		Vietnamese Dong	112.00	
Laos Kip	112.00		Laos Kip	112.00	
Cambodian Riel	112.00		Cambodian Riel	112.00	
Myanmar Kyat	112.00		Myanmar Kyat	112.00	
Burmese Kyat	112.00		Burmese Kyat	112.00	
Nepalese Rupee	112.00		Nepalese Rupee	112.00	
Bhutan Ngultrum	112.00		Bhutan Ngultrum	112.00	
Maldivian Rufiyaa	112.00		Maldivian Rufiyaa	112.00	
Sri Lankan Rupee	112.00		Sri Lankan Rupee	112.00	
Indian Rupee	112.00		Indian Rupee	112.00	
Pakistani Rupee	112.00		Pakistani Rupee	112.00	
Sri Lankan Rupee	112.00		Sri Lankan Rupee	112.00	
Thai Baht	112.00		Thai Baht	112.00	
Singapore Dollar	112.00		Singapore Dollar	112.00	
Malaysian Ringgit	112.00		Malaysian Ringgit	112.00	
Indonesian Rupiah	112.00		Indonesian Rupiah	112.00	
Philippine Peso	112.00		Philippine Peso	112.00	
Vietnamese Dong	112.00		Vietnamese Dong	112.00	
Laos Kip	112.00		Laos Kip	112.00	
Cambodian Riel	112.00		Cambodian Riel	112.00	
Myanmar Kyat	112.00		Myanmar Kyat	112.00	
Burmese Kyat	112.00		Burmese Kyat	112.00	
Nepalese Rupee	112				

[illegible][illegible]

NOTES

Prices are in pence unless otherwise indicated and those designated S with no prefix refer to U.S. dollars. Yield % refers to total coupon income for full term of maturity.

a Offered prices include all expenses. b Today's price is Yield based on offer price. c Estimated. d Today's opening price. e Distribution free of UK taxes. f Periodic premium insurance plans. g Simple premium insurance. h Offered price includes all expenses except agent's commission. i Offered price includes all expenses except agent's commission. j Includes 1% fee for 100,000 Swiss Francs. k 5 Swiss francs. l Suspended. m Yield before Swiss tax. 7 Ex-subsidized. n Only available to charitable bodies. o Yield column shows annualized rates of NAH success. of ex dividend.

TRADITIONAL OPTIONS			
3-month call rates			
Industrials	9	Morris & Spencer	13
Allied-Lyons	28	Metal Closures	14
BAT	26	Miloland Bk	36
BGC Grp	27	NEI	10
BSR	8	Pack West Bk	55

BTR	33	P & D Dto	35
Babcock	13	Plessey	14
Barclays	33	Polly Pack	21
Beecham	30	Racial Elect	15
Biele Circle	50	RDH	22
Boots	24	Rank Org Ord	35
Bovaters	39	Rank Indl	39
Brit Aerospace	32	SI	12
Brit. Telecom	31	Ti	35
Brown U.L.I.	34	Yeco	24
Buxton Ord	45	Thorn EMI	36
Cauboury	13	Trust Houses	12
Charity Cons	18	Turner Newall	92

Coorn Union	23	Mistler	90
Coornvelds	13	Vickers	35
Distillers	30	Property	
FFNC	12	Brit Land	34
Gen Accidnt	35	Land Sees	26
Gen Electric	30	MEPC	26
Glass	39	Paschay	20
Grants Met	30	Samuel Props	15
GUS 'A'	70	OTs	
Guardian	60	Grist. Oil & Min.	3 1/2
GKN	50	Brit Petroleum	45
Hanson Tot	18	Burmah Oil	27
Hawker Suds	36	Churchill	6

ICI	42	Premier	5
"Imps"	16	Shell	55
Jaguar	27	Trucontrol	18
Ladbrokes	27	Ultramar	18
Largal & Gies	24	Wates	
Lea Service	35	Cos Gold	40
Lloyds Bank	35	Loarho	22
Luxor Inns	33	Rio T Zint	50

A selection of Options traded is given on the London Stock Exchange Report Page.

SECTION III FINANCIAL TIMES SURVEY

NIGERIA

With oil prices at recent lows and the national economy in recession, Nigeria faces one of its most testing years since independence in 1960

Debt crunch ahead

FOUR YEARS after the slump in international oil prices first began to take its toll on Nigeria, the crunch is now upon Africa's most populous nation and one of Europe's most important trading partners on the continent.

Margins for manoeuvre have been steadily eroded. Creditors will not allow a further accumulation of trade arrears (now some \$5-6bn), a form of enforced borrowing which has allowed the government to meet medium and long-term debt servicing commitments. Industry is now coming to an end of the run down in stocks, plant and equipment need replacement; and the sector is operating at barely 80 per cent of capacity.

The drastic cut in import levels from a peak of \$21bn in 1981 to a forecast \$7bn this year has pruned the supply of essential raw materials and equipment almost to the limit. On top of all this comes the recent dramatic slump in the price of oil, which accounts for over 95 per cent of export earnings.

The uncomfortable fact that faces the Military Government of President Ibrahim Babangida is that unless agreement is reached to reschedule the country's crippling \$18bn external debt, it will almost certainly be forced to default in the coming year.

Yet such rescheduling raises one of the most sensitive issues in Nigeria today—the role of the International Monetary Fund (IMF) in the country's economic reconstruction programme. Creditors insist that an agreement with the fund is a precondition to rescheduling. But so passionate was the public rejection of such a role discussed in a one-sided national debate in the latter

By MICHAEL HOLMAN
Africa Editor

part of last year, that President Babangida announced the suspension of negotiations with the IMF in a public broadcast last December.

The Government's willingness to consult the public on most major issues, which is one of its most attractive features, has also left it more vulnerable than any military government in Nigeria's turbulent 25 years of independence to public opinion. And there lies the challenge that President Babangida faces today: how can he follow through the economic adjustment programme begun in the 1986 budget, and whose logical conclusion would require a devaluation and some form of accommodation with the IMF, without running the risk of alienating many of his supporters?

In some important respects President Babangida has fulfilled the promises he made when he and fellow officers overthrew General Muhammadu Buhari in a bloodless coup on August 27. A government which was intolerant of criticism, harsh in its attitude to human rights, and which muzzled the press, has been replaced by an administration whose watchwords have been public consultation and accessibility.

The result has been a transformation in the national mood from one of resignation to a lively sense of participation, despite the enormity of the problems under discussion, in the process of government, encouraged by a press which is freer and more vigorous than any in black Africa.

Many detainees held on dubious or unproven grounds by the past administration have been released, the excesses of the National Security Organisation curbed, and no less than three tribunals are looking into the cases of those still held, or who were convicted of corruption by military tribunals on the basis of sometimes scanty evidence.

The President himself takes advice from a wide range of people — businessmen, civil servants and military colleagues. His own experience of government is not inconsiderable — not in the sense of technical expertise—but drawn

Part One
Part Two appears
next Monday



IN THIS SURVEY

● Political scene: foreign policy; presidential interview; debate on civilian rule; religious issues; regional divisions
Pages 2-4

● Economic prospects: capital markets; debt rescheduling; IMF debate; exchange rates; foreign investment; corporate profits and banking
Pages 5-16

● Industry: struggle for raw materials; labour issues; motor industry; imports substitution; export incentives; textiles; cotton; the construction industry
Pages 11-15

● The social scene: politics in print
Page 16

● Part Two of this survey, which appears next Monday, March 4, will include major features on trade, oil, agriculture, and aspects of doing business in Nigeria.

Photographs by
ASHLEY
ASTWOOD

from his membership of the Supreme Military Council which ran Nigeria from 1975 to 1978, as well as serving on the SMC headed by his predecessor, General Buhari. Equally important, as some of his close associates point out, is the fact that he has played a key role in military coups over the years: the overthrow of

General Gowon in 1975, in quelling the short-lived coup attempt in 1976 when General Murtala Muhammed lost his life, and in 1983 when he could, had he wanted, have led the Military Government which overthrew Shehu Shagari.

"Do not underestimate the President's shrewdness," notes one observer, "that lies underneath his amiable exterior."

It is the President's personal authority and popularity that has so far allowed him to push through measures which would otherwise have provoked an outcry—such as the cut in civil servants and defence force wages, a 20 per cent cut in overall defence spending, and a budget which among other measures slashed the subsidy on domestic petroleum.

Yet if the Government rates highly on a check list which includes human rights, press freedom and accessibility, there are a number of disconcerting developments which have aroused concern, and which create the impression of a government less certain in its handling of affairs than had originally been hoped.

One of the most striking examples was the decision to join the Islamic Conference Organisation, a move which brought protests from Christian leaders who, rightly or wrongly, feared a change in Nigeria's secular status.

The outcome has been the creation of a note of religious

controversy where none had existed before. But the way in which the decision to join was taken puzzled many Nigerians, who first learnt of the development in a report by a foreign news agency which initially was denied by a senior member of the Armed Forces Ruling Council (AFRC).

The country still awaits a definitive account of the matter, which may be provided by a panel due to report later this month. Whatever its findings, the Government has severely dented its reputation as an administration which consults the country on important matters.

Equally puzzling was President Babangida's announcement earlier this month of an impending cabinet reshuffle which he did not implement for four days. The moves, when they came, were not self-evidently of benefit.

Four months after his original appointment, and barely two weeks after the budget, the minister of finance, Dr Kain Kalu was shifted to planning, and the Petroleum Minister, Professor Tam David West, moved to Mines and Steel, at a time of turbulence in the international oil market.

Nor has confidence been inspired by the handling of Nigeria's counter-trade deals in which oil was swapped for goods. The policy, severely criti-



● NIGERIA'S NEW PRESIDENT, Maj. Gen. Ibrahim Babangida, above, and behind him the seven other leaders of the nation since independence. These leaders (from left to right) and the years they came to power were: Sir Abubakar Tafawa Balewa, 1960, killed in a coup; Maj. Gen. Johnson Aguiyi-Ironsi, 1966, killed in a counter-coup; Gen. Yakubu Gowon, 1966, later deposed; Gen. Murtala Ramat Muhammed, 1975, assassinated in 1978; Lt. Gen. Olusegun Obasanjo, 1976; Alhaji Shehu Shagari, 1979, deposed in 1983; Maj. Gen. Muhammadu Buhari, 1983, deposed August, 1985.

CONTINUED ON PAGE TWO

United Bank for Africa Limited

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UNITED BANK FOR AFRICA LIMITED BALANCE SHEET AS AT 31ST MARCH, 1985

	1985	1984		1985	1984
Liabilities March 31st	N'000	N'000	Assets March 31st	N'000	N'000
Capital	75,000	75,000	Cash and Banks	2,987,546	1,669,947
Reserves	134,093	109,800	Investments	72,744	68,366
Deposits etc.	4,319,600	3,114,546	Loans & Advances etc.	1,468,403	1,560,833
Contra Accounts	910,626	740,411	Contra Accounts	910,626	740,411
	<u>5,439,319</u>	<u>4,039,557</u>		<u>5,439,319</u>	<u>4,039,557</u>

N1 = US\$1.3359; S 0.9258; FF 10.5956

Over one hundred and twenty
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London Representative Office
Plantation House,
5/8 Mining Lane,
London E.C.3
Tel: 01-628-7205-7

UNITED BANK FOR AFRICA LIMITED

97/105 Broad Street, P.O. Box 2406, Lagos, Nigeria Tel: 667410, 667510

Telex: MINDOBANK 21241 & 21580

UBA

As oil prices sink, drastic stabilisation measures such as debt rescheduling and a substantial currency devaluation appear difficult to avoid.

Options start to narrow

Economic prospects

TONY HAWKINS

THIS YEAR threatens to be the crunch year for the Nigerian economy—the year in which Nigeria runs out of options. Some options are still open, but as oil prices plummet the options narrow in range and efficacy, forcing Lagos ever closer to the brink of debt rescheduling and substantial currency devaluation.

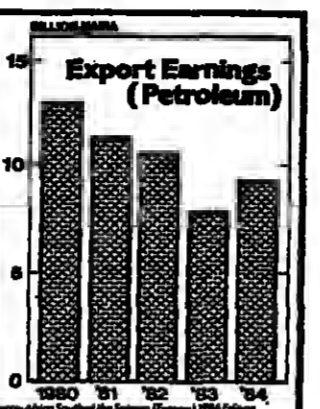
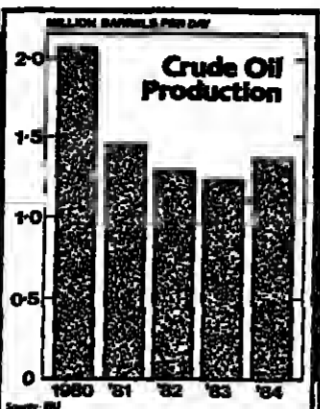
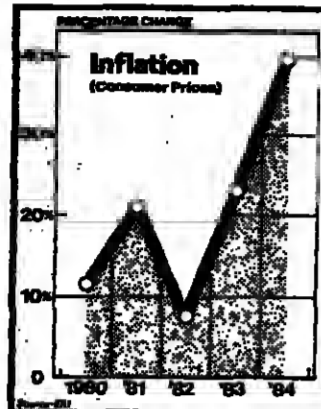
In the last three months, the Nigerians have formally rejected an IMF loan agreement, put a cap on foreign debt service payments equivalent to 30 per cent of expected foreign exchange receipts, ordered an increase in oil production to offset plunging prices. They have also imposed a range of fiscal measures designed to stabilise the economy, which also satisfied several of the IMF's loan conditions, established a two-tier currency market and publicly accepted the need for a rescheduling of their medium and long-term foreign debt as well as a continued restructuring of trade debt arrears.

Taken together, these measures represent major progress towards economic adjustment but one vital ingredient is missing—a large devaluation of the Naira from its current parity with the US dollar. The two-tier market is intended to go some of the way towards currency adjustment by allowing a broad range of non-essential transactions—imports of consumer goods, foreign travel, payments abroad for education—to take place at a realistic market exchange rate. The mere fact that the Nigerian authorities have acknowledged this necessity serves to underline the inevitability of eventual adjustment of the official rate of exchange.

Such adjustment is crucial to stabilisation of the economy both in the short run and in the longer term. In the wake of all the other adjustment measures already undertaken by Lagos, substantial devaluation would open the way to an IMF agreement, thereby unlocking the door not just to an IMF loan and rescheduling of existing debts but to an estimated \$3bn annually of new resources over a three-year period in the form of quick-disbursing structural adjustment loans from the World Bank, some new credits from international banks, and renewed access to credit lines from the export credit agencies. Such a package would get Nigeria over the debt-servicing hump it now faces during the 1986-89 period, thereby easing the rear-term foreign payments constraint, but just as important, major currency devaluation is needed also to achieve effective restructuring of the economy in a way that would revitalise the agricultural sector, while encouraging non-oil exports and efficient import substitution.

Opponents of an IMF agreement question—with some justification—whether Nigeria would attract the level of resource inflows of \$3bn over a three-year period given caution on the part of both international banks and official credit agencies to extend their Nigerian exposure. They are, also justifiably, very concerned at the likelihood of new capital inflows being squandered by the federal and state governments at a time when there are signs of Nigeria's coming to terms, at long last, with the need for fiscal responsibility and control.

However valid these points may be, the fact remains that it is long-term structural readjustment associated with currency devaluation that will be far more important than the immediate debt crisis. Since the onset of the oil glut in 1983, one civilian and two military administrations have wrestled



with Nigeria's economy imposing layer upon layer of bureaucratically-controlled austerity designed to avoid the need for fundamental balance of payments adjustment.

The only workable option—a return to a strong oil market—has failed to materialise. At the same time, the other ad hoc options—the build up and rescheduling of trade arrears, cutbacks and delays in invisible payments, a 40 per cent reduction in imports, higher taxes and cuts, increased

debt service—have all failed to resolve the foreign payments crisis at a time of falling oil prices.

On the other hand, these policies have forced the economy into a recessionary straitjacket with the result that real per capita incomes which increased 17 per cent between 1974 and their 1978 peak, have since fallen 30 per cent and are back to their levels of the late 1960s. Indeed, real Gross Domestic Product at N26.5bn last year was 15 per cent below its 1978 peak and only marginally higher than the 1976 figure of N26.2bn.

To make matters worse, the economy has been going through a period of pronounced stagflation with the result that prices and the naira's real effective exchange rate have worsened while output declines. Although the authorities have allowed the naira to depreciate against the US dollar by no less than 84 per cent in the last five years, movements against other currencies have been very limited with the result that by early 1986 the naira's nominal effective exchange rate (based on an import-weighted basket) was estimated to be only 5 per cent below its December 1980 level.

With inflation averaging 20 per cent annually over the past five years, the real effective exchange rate of the naira is estimated to have doubled giving a

half-price figure for its present overvaluation. It is argued by businessmen and bankers in Lagos that the mooted 30 per cent devaluation of the naira would no longer be adequate and that the authorities should be thinking in terms of a 50 per cent shift. This is supported to some extent by the black market rate of around five naira to the dollar compared with the official parity of one naira to the dollar.

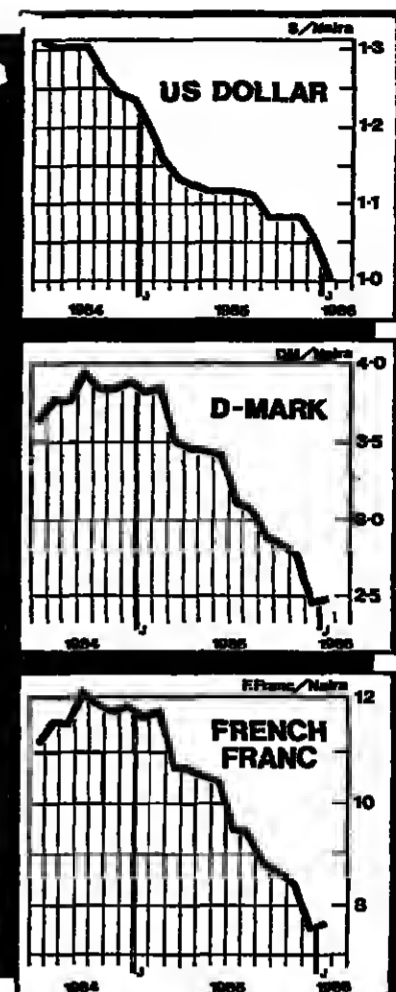
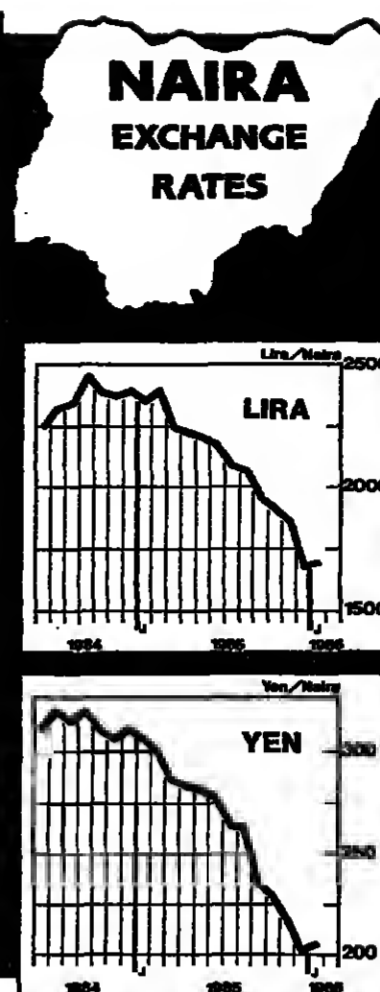
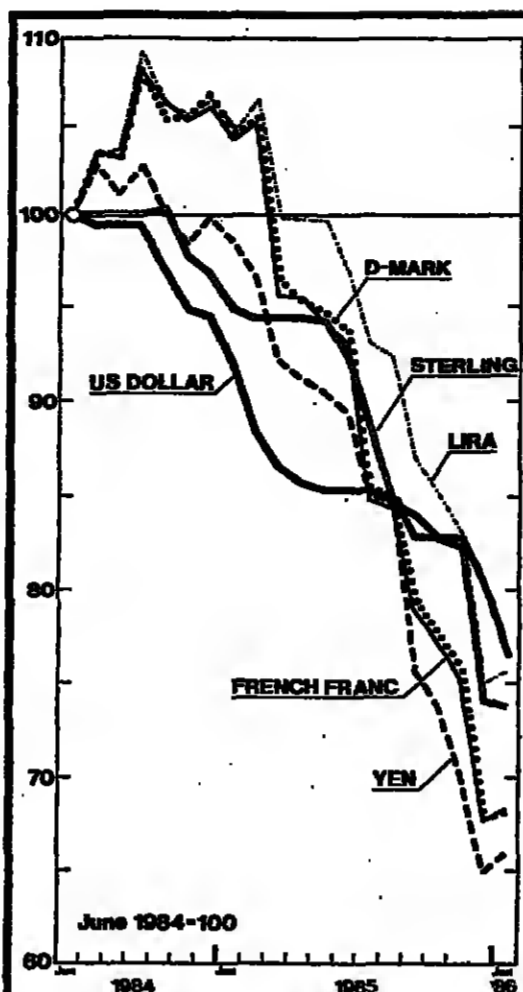
Reinforcing this argument is the combination of a continuing poor performance by the non-oil exports on the one hand and the expectation of sharply higher inflation in 1986 after a year in which the authorities succeeded in holding inflation down to no more than 5 per cent.

The doubling of the petroleum price with the abolition of the domestic subsidy (one of the IMF's conditions for an agreed programme), and the 30 per cent import surcharge (designed to avoid currency realignment while also raising much-needed public revenues) at a time of strong demand for essential imports that are in very short supply, suggests that the inflation rate will move back above 20 per cent in 1986, further underlining the need for devaluation.

Real GDP increased 2.4 per

cent last year—the first increase since 1979—in the wake of a revised 5.5 per cent decline in 1984. Agricultural output was up 3.5 per cent but the main growth came from manufacturing where output volumes rose 4.8 per cent. After declining 14 per cent between 1981 and 1983, petroleum output increased by 13 per cent in 1984 and gained a further modest 3.5 per cent last year, taking output back to

Continued on Page 6



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Nigeria's new Finance Minister, Chu S. P. Okongwa

Balance of payments

	1984*	1985	1984	1985	1982	1981
Exports	8.6	10.7	9.1	7.6	8.2	10.9
Imports	7.5	7.4	6.8	6.5	10.0	11.3
Investables (net)	-2.6	-2.4	-2.1	-2.5	-8.0	-3.3
Current balance	-0.5	+0.9	+0.2	-5.0	-4.8	-3.7
Capital (net)	-2.1	-1.2	+0.2	+2.9	+3.4	+0.7
Overall balance	-2.6	-0.3	+0.4	-0.2	-1.4	-3.0

* Forecast.

Sources: Central Bank of Nigeria and own estimates.

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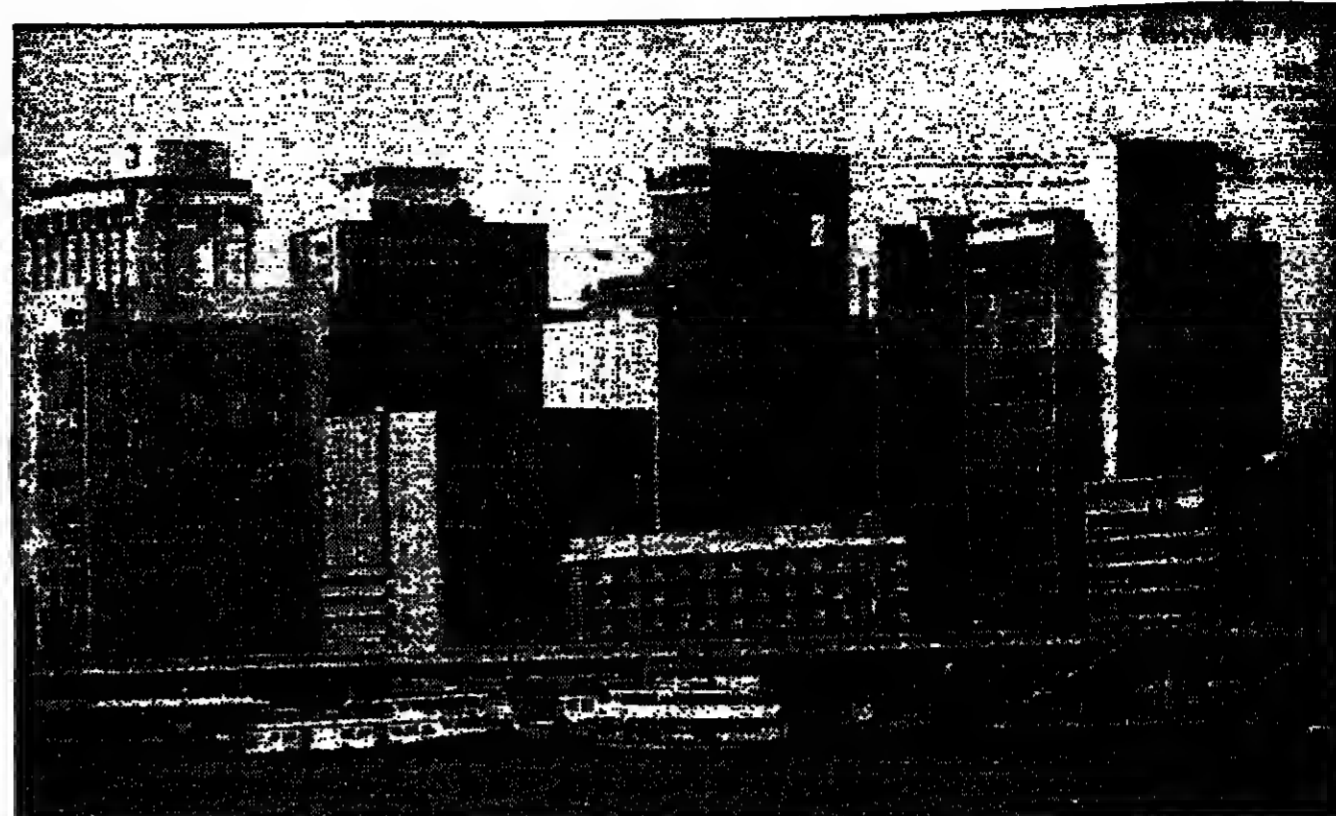
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Lagos, the commercial capital of Nigeria. Critical observers worry about the national penchant for smothering enterprise in a blanket of bureaucracy

Tony Hawkins looks at government moves towards greater realism in establishing the true value of the naira.

Two-tier exchange market

NIGERIA'S PLAN to establish a two-tier foreign exchange market is a move towards greater exchange rate realism in two main respects. First, it will allow the emergence of a market rate to take at least some of the strain in terms of allocating scarce foreign exchange resources. Secondly, it provides a mechanism for legalising the illegal black market by replacing it with a legal "parallel" market.

On the face of it, it would seem that in agreeing to the creation of the second tier, the Nigerian authorities have accepted the unpalatable reality that the naira is substantially overvalued. And yet, there are those who very obviously see the two-tier rate as an ingenious means of yet again avoiding the need to come to terms with harsh reality in the form of full-frontal exchange rate adjustment.

Nowhere is this strategic conflict more evident than in two of the budget documents themselves. The President, in the budget address, and former Finance Minister Kulu Kulu in his budget briefing, both openly acknowledge the need for a flexible exchange rate policy.

But Chief Kuye, Director of the Budget argues in a widely-circulated paper that the official rate needs to be held close to parity with the US dollar for a minimum period of 12 months.

During this initial period, he says, only the second tier rate should be allowed to fluctuate in response to market forces. This would seem to constitute a reversal of the "sinking peg" approach to exchange rate policy which took the naira down some 23 per cent against the US dollar in the 15 months prior to the budget.

As conceived by Chief Kuye, the official exchange rate will be used for major exports (oil and cocoa) and also to finance essential imports of raw materials, foodstuffs, military hardware, and capital equipment as well as for debt servicing and other essential invisible costs.

The second window will be used to finance imports for

which official foreign currency allocations have not been made available by the Central Bank. This parallel market could also provide foreign exchange for student fees abroad, foreign holidays and business trips, and any other "unauthorised" spending on invisibles or merchandise imports.

The theory is that the second-tier rate would settle somewhere between the official rate of one naira to the US dollar and the existing black market rate of about five naira to the dollar.

Three initial moves to create the second window have been announced and are in varying stages of implementation.

The first, announced a year ago, was the decision to allow Nigerians to establish so-called domiciliary accounts which enable a resident to open a foreign currency bank account in Nigeria.

No questions asked

The authorities have said that no questions will be asked on the origin of any such funds repatriated to Nigeria and that residents will be now allowed to exchange their US dollars in the parallel market for five naira rather than the one naira rate ruling in the official market.

This is seen as an attractive inducement to repatriate "flight capital" which would then create a pool of foreign currency that potential importers can bid for. The greater is importer demand for foreign currency the more naira the Nigerians will get for his dollars.

The second important step was the decision to allow exporters of non-traditional exports to keep for their own use 25 per cent of their foreign currency earnings. Such earnings could be brought back into Nigeria at the attractive free market exchange rate, thereby further boosting the domestic pool of foreign exchange.

The third move is the recent issue of import licences "not valid for foreign exchange."

Unlike the other two supply-side measures, this is a demand-side programme that will enable

importers to bring in non-essential imports of their choice, provided they purchase the foreign currency at the second window at a punitive exchange rate. It is reported that up to N25m of such licences are being issued in apparent anticipation that the supply-side measures will work effectively to create the necessary pool of foreign exchange.

While on the surface the second-tier market offers advantages all round, there are some very real snags and deeply-held reservations. So far as the domiciliary accounts are concerned, it is pointed out that these were first announced 14 months ago and the Government has taken an inordinate time to get its act together and bring forward some practical regulations concerning the operation of such accounts. It is believed, too, that many Nigerians with funds outside the country will be extremely reluctant to repatriate them since few of them are likely to have any great confidence in the Government's assurances that they will not be prosecuted or penalised in any way. There is a very real danger that a different administration at some future date will disown the present government's policies.

There are some real doubts too over the viability of the scheme. Already with a weaker naira and the 30 per cent import levy imposed in the budget, import prices are rising steeply.

The second window could lead to import price increases in excess of 600 per cent after allowing for a 450 per cent exchange rate markup, the 30 per cent levy, and the margin of profit that traders are likely to seek in using the second-tier.

It is argued that while such profit margins might be available on fast-moving items like motor vehicle spares or car tyres and batteries, the range of products that could absorb such price increases without being priced out of the market is a relatively narrow one.

In other words, the demand for import licences could fall well short of the levels currently anticipated by the

Government. Other critics worry about the Nigerian penchant for smothering enterprise in a blanket of bureaucracy and red-tape. Chief Kuye's paper involves trading in foreign currency "coupons" on the stock exchange or in the money markets, the endorsement of travellers' passports, returns by commercial banks to the Central Bank and the exclusion of all non-residents, companies as well as individuals. There is a very real danger that far from liberalising the exchange markets the authorities will merely create new layers of bureaucracy.

Effect on inflation

The system could have both favourable and negative implications for inflation. By increasing the supply of goods, it could help contain inflationary pressures, but more likely is rapid "inflation" fuelled by steeply rising import prices as traders go all out to make the most of their foreign currency operations.

If the two-tier market can be managed efficiently, it will help ease the scarcity of goods by allowing the importation of larger volumes of essential and non-essential imports and by mobilising idle balances held abroad by Nigerians. It would also have the beneficial effect of demonstrating beyond all doubt just how over-valued the naira is at its current official rate.

Equally, it would be unfortunate if the system were to work, as some of its sponsors intend, to enable Nigeria to continue to avoid the need for a comprehensive economic adjustment programme — one that includes a realistic exchange rate, in the official as well as in the parallel market.

The best outcome would be one that convinced the authorities of the benefits to be reaped from financial liberalisation — but without careful management and possibly some initial seed capital in the two-tier market from the first window — that may be asking too much.



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NWPC keeps depression at bay

Textiles

PETER BLACKBURN

THE ANONYMOUS white-washed walls of the Nigerian Weaving and Processing Company's (NWPC) factory on Lagos's Ilupeju industrial estate give no hint of the specialised modern machinery within.

As managing director Mr Abdul Sattar Debs proudly leads the way one is struck by the empty space and lack of people within.

"Four years ago we invested N8m in new machinery. It was expensive but quickly paid off," explains Mr Debs. The new, mainly Swiss, machinery took up far less space and required much less labour reducing costs and raising productivity.

Mr Debs, who studied textiles in Bolton, adds: "If import licences are granted we plan to invest a further N1.5m." Spinning capacity would be raised by 50 per cent and weaving by 33 per cent with the addition of 10 looms.

Productivity up

NWPC has a weaving capacity of 3.6m metres a year and a processing capacity of 1.4m metres a year. The factory is presently running at 60 per cent capacity compared with a national average of about 35 per cent.

"We do better than most as we also process grey cloth. This is less profitable but it helps to maintain turnover," explains Mr Debs.

Against a generally depressed national industrial background NWPC provides an example of a small but profitable integrated textiles mill where profits have been reinvested to modernise and raise productivity.

NWPC is 60 per cent owned by the Lebanese Debs family who arrived in Nigeria more than 50 years ago. The factory produces material for shirts, safari suits, uniforms, foam cover and specialty prints for

religious and other ceremonies. Customers bring their own designs and the minimum order is 10,000 metres.

Despite raw materials and supply constraints, Nigeria offers a huge potential domestic market, according to a recent study by the United Nations Industrial Development Organisation (UNIDO). Current per capita consumption is estimated at 1.5 kgs per year of which over half is imported.

Egypt, with a per capita income less than half that of Nigeria, consumes three times as much textiles.

Investment needs are relatively modest and are mainly required to increase the supply of cotton, machinery and spare parts (see separate article).

Like other companies NWPC has had to invest in its own power supply. "Normally it is cooler in the spinning mill but we are running on our standby generators and have to switch the air conditioning off," explains Mr Debs. NWPC has three generators totalling 12,300 kw installed in 1982 for a cost of N0.5m.

"Here in Ilupeju we are relatively lucky using standby power only 20 per cent of the time in the past year," he adds.

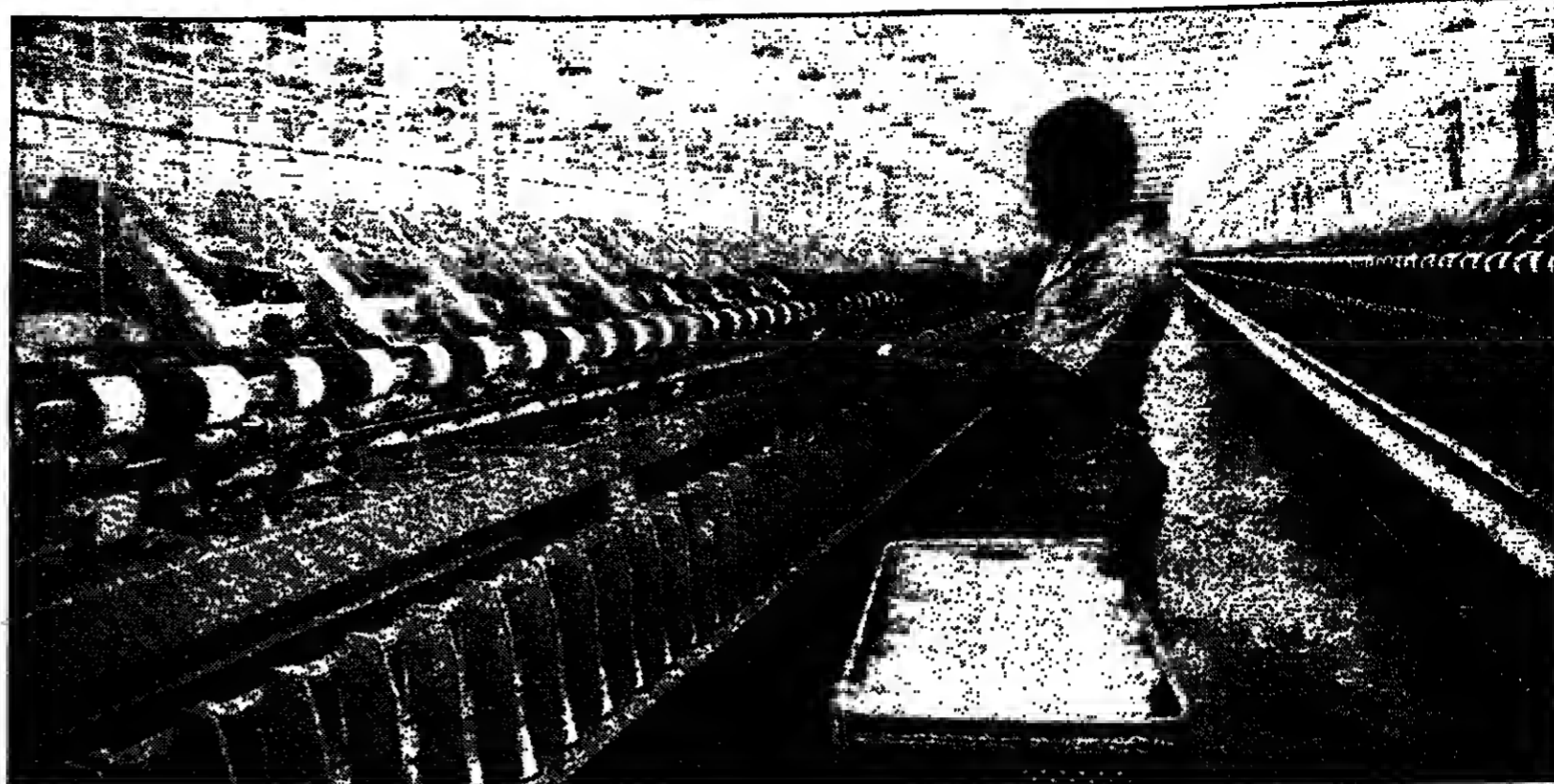
Last year sales rose by 40 per cent mainly due to a sharp increase in prices which far outweighed higher raw material, labour and other costs. Prices dipped towards the end of last year due to an upsurge in smuggling but are now rising again.

Nigerians have a natural inclination towards exotic, luxury fabrics and an estimated 200m metres used to be smuggled in before the borders were closed in early 1984. A substantial amount continues to be smuggled in, according to industrialists.

Last year also saw an exceptionally steep rise in net profits which amounted to about 12 per cent of turnover of approximately N9.5m. Apart from increased prices improved profitability was achieved by higher productivity and lower costs.



Mr Abdul Sattar Debs (above), managing director of the Nigerian Weaving and Processing Company: hard pressed to keep up with the demand for fabrics. Right: an operative attends to one of the company's frame spinning machines



Production starts to improve

Cotton

PETER BLACKBURN

FIFTEEN YEARS ago there were pyramids of cotton bales piled up beside the cotton ginny in Kaduna State and Nigeria used to export several hundred thousand bales a year.

Now the pyramids have practically disappeared and last year about 300,000 bales were imported for the local textiles industry. Decline set in when cotton producer prices started to lag behind those for food crops, according to an agricultural economist. Periodic drought inflated food prices while a corrupt and inefficient marketing system administered by the Nigerian Cotton Board further discouraged farmers.

Drier weather conditions also necessitated the development of more drought resistant cotton varieties at a time when seed quality was deteriorating due to the lack of proper selection after each crop.

However it seems that the long period of decline may soon be reversed as the shortage of foreign exchange prompts the government to insist that the textiles industry seek local sourcing of raw materials.

The Funtua based Nigerian Cotton Board has plans to increase production by 100,000 bales (18,000 tons) a year so as to achieve national self-sufficiency by 1990. This would bring a foreign exchange saving of N148m based on 1985 import projections by the Nigerian Textile Manufacturers Association.

In order to achieve this target the association's 67 member as well as 15 non-member companies are being asked to contribute towards the cost of a cotton rehabilitation programme. The larger textile companies are expected to contribute N50,000 annually.

The funds will be used to finance the research programme of the Institute for Agricultural Research, the provision of new high bred seedlings and the restructuring of the cotton marketing system.

Alternatively textile companies can embark on their own cotton growing schemes but industrialists say that the area of land required is so great as to make such undertakings unfeasible.

"Roughly one bale of cotton can be obtained per hectare per crop. At this rate we could

only meet 1 per cent of our cotton requirements. It is better to encourage local smallholders than invest in large scale schemes," comments one textile manager.

Any reluctance firms may have about contributing to the rehabilitation programme is likely to be overcome by their need for import licences, the granting of which have been made conditional.

However, the Cotton Board's past record has been poor and there is scepticism in the industry whether its targets will be achieved. But as one manager remarks "If only half the objective is reached, it is still good news."

When this correspondent called at the Cotton Board's headquarters, neither the general manager nor his deputy were "on seat." A questionnaire about the board's activities and plans remains unanswered.

One of the main problems in the past has been that the board's licensed buying agents have either not paid farmers the official price or else paid many months late.

As a result farmers have switched to food crops, especially maize, which they are able first to consume and later sell the surplus directly for much more attractive prices.

It is understood that the Cotton Board is now authorising some direct cotton purchasing by outsiders so as to encourage competition and speed up payments.

Better rainfall and an increase in producer prices led to a crop of nearly 18,000 tonnes in 1985, about 25 per cent up on the previous year. A further increase is forecast this year especially as maize prices have fallen making cotton more attractive.

However, an estimated 55,000 tonnes still had to be imported, some of it under a counter trade agreement with Brazil, to meet the needs of the local textile industry operating at only 40 per cent capacity.

The increase in fuel prices has created a fresh problem.

A substantial part of the crop remains to be brought into the ginneries as the buying agents press for their margin to be maintained.

In addition to purchasing all cotton fibres locally, textile manufacturers are also expected to phase out imports of spun yarn and filament yarn by 1990. Imports of spun yarn are forecast at N71m and filament yarn N94m in 1986.

In order to achieve this objective a capital investment of N567m will be needed over the next five years. The investment programme assumes that fabric manufacture will be frozen at its present level of 885m metres per year.

The Textile Manufacturers' Association stresses that spun and filament yarn imports can only be phased out if the government makes sufficient foreign exchange available to execute the investment programme.

It adds that other raw materials such as colours and chemicals, spares and polyester chips will continue to be imported. Indeed chip imports are forecast to increase fivefold to N78m in 1990.

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